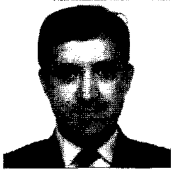
Evaluating European competitiveness: measurements and models for a successful business environment

This article evaluates the debates surrounding the notion of national competitiveness in a European context. In addressing the issue of whether states compete, it also considers alternative ways of measuring national competitiveness. Whilst an absolute measure of national competitiveness is indeterminate – states do not shut down due to falling profits – a relative measure is possible. States vie with each other to attract inward investment or to gain foreign market entry for their companies. This relative national competitiveness is particularly evident within the European Union, driven by the need for member states to reduce unemployment and increase productivity and growth levels. The Blair administration's approach, whilst fraught with ideological contrasts, correctly highlights enterprise promotion and global competition as the cornerstones of European economic success. More broadly, national governments and the EU are now ostensibly preoccupied with developing the optimum competitive infrastructure for European business, rather than supporting corporate or sectoral champions in market competition. The overall intention is to ease and encourage international competitiveness, particularly amongst small and medium-sized enterprises (SMEs).



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Introduction

It has become a truism to argue that European governments have reconstituted their relationship with the private sector. A move away from top-down approaches to government–business relations has undoubtedly occurred, even in those states where government has traditionally been the manager, and often owner, of the means of production. The new norm is 'partnership', with business being involved more directly in the broad policy process of nation states. The underlying causes of this paradigm shift are numerous. However, a pragmatic interpretation is that it was largely in response to Europe's persistent economic woes and the perception that the EU is broadly 'uncompetitive'. A variety of economic indicators (including growth, employment and labour productivity) testified to the generally lacklustre performance of Western European economies and reflected the region's enduring weakness in responding to increasing market challenges. The 1994 Union of Industrial and Employers' Confederation of Europe (UNICE) Competitiveness Report lent further support to this negative assessment. UNICE argued that a decline in European competitiveness was evident in economic indicators such as a falling rate of GDP growth, a falling share of world exports and a low level of new job creation.

Not all blame rests with government. Rigid management systems, bloated cost structures, production inefficiencies, low levels of innovation, slow product-to-market processes, and weak sales and marketing techniques of many European firms lay at the root of Europe's competitive malaise. Nonetheless, a 'policy fix' was perceived as the prime means through which Europe's economic woes could be resolved. At the EU level, this developed first in the form of the Single Market Programme followed by the industrial competitiveness policy model that emerged from the 1993 Treaty on European Union. At the national level, it was manifest in a vigorous competition for inward investment, policies to promote and assist exports, and incentives to SMEs.

The notion of national (or EU) competitiveness is a useful concept. Both states and firms compete in the global economy. States compete in that they select and tailor policies to attract and encourage business in an effort to reduce unemployment and promote higher living standards. These policies are frequently formulated to optimise the attractiveness of a specific country as a base from which and within which to transact business. Europe is not wholly uncompetitive but rather has some countries that meet the test of international competition and others that do not. Membership of the competitive caucus is largely premised on a country's prevailing system of capitalism and related degree of economic liberalism, as well as the flexibility and efficiency of its socio-legal system. The British model of competitiveness policy is a useful, if flawed, archetype for other European countries seeking to leverage their relative global competitiveness without abandoning their social democratic obligations.

Do states compete?

Competitiveness has become a key public and private sector concern as the scale and scope of cross-border economic transactions has intensified. Not only have many large firms restructured or formed external alliance networks to remain competitive but governments have also investigated how to sharpen their countries' economic performance and inward investment potential. A significant number of business people and academic commentators dispute the appropriateness of competitiveness measures for national economies. Critics argue that firms, not states, compete in the global economy. The truth is that *both* firms and states compete but they do so in very different ways, with contrasting objectives and divergent consequences. Firms are the ultimate market competitors, driven by the need to create value and generate profit. States are indirect competitors, motivated by the desire to encourage wealth creation and improve living standards. In this capacity, a distinction may be made between more proactive inter-state rivalry, for instance, in the form of comparative investment subsidies and export assistance, and less active rivalry through public sector provisions and regulatory and fiscal frameworks. Critics further declare that it defies economic logic to claim that a specific state is 'competitive'. Indeed, it is difficult to establish when a country is competitive or uncompetitive in absolute terms. The notion of national competitiveness is legitimated more by political than by economic constructs or rationale. Political leaders and policy-makers employ the notion of national competitiveness first, as a means of collectively assessing a disparate range of economic indicators and policies, and second, in order to mobilise public support behind drives for increased productivity and fiscal austerity measures such as public sector wage constraint. Moreover, they base their assessments on comparable benchmarks: neighbouring states or similar sized economies are examined and indicators such as per capita GDP, import–export ratios and unemployment figures are compared in order to gauge 'relative competitiveness'. National competitiveness has little meaning if not placed in a comparative context.

Competitiveness is therefore a conceptual mechanism for considering a broad set of indicators that point to the relative international performance of a nation's collective endeavours. A country's future prosperity depends on its ability to generate employment and a rising level of income for its citizens. Government policies can influence these outcomes, often through outmanoeuvring another state's policy initiatives. States compete in that they choose policies to attract inward investment, encourage exports and shape structural conditions so as to benefit domestic companies engaged in international market competition. The choice of policies can be determined by the policy agendas of other countries. For example, EU member states such as Ireland and Luxembourg set corporate tax rates lower than other member states in a deliberate ploy to attract inward investment which might otherwise locate elsewhere.

Measuring competitiveness

Any evaluation of national competitiveness must begin with a consideration of two fundamental questions, first posed by Scott and Lodge (1985). 'How and in what dimensions do we measure the competitiveness of a national economy?' 'What standards do we use in determining adequacy?' Measuring a country's competitiveness is relatively straightforward but measuring the underlying input factors, or causes of competitiveness, is distinctly more complex. Any measures can at best be relative and never be absolute. Furthermore, the best performing economies are generally viewed as those with high productivity levels and growth rates, low unemployment and rising export volume. However, these economies are not necessarily the most suitable international competitive benchmarks. Their success may, for instance, be due in part to unique factors such as historical underdevelopment. Similarly, it is important not to base a nation's competitiveness on the relative performance of what Scott and Lodge term 'underachievers'. Long-standing national comparisons can be falsified if the benchmark country experiences economic decline and competitive malaise. Hence, it is advisable to establish competitive indices based on established patterns and norms, shielded (as much as possible) from economic cycles and competitive anomalies, which risk distorting any competitiveness measures.

The US President's Commission on Industrial Competitiveness (1985) outlined four key indicators of competitiveness: labour productivity, real wage growth, real returns on capital employed and position in world trade (Thompson, 1989, p. 46). A decade later the EU's first Competitiveness Advisory Group similarly advanced several indicators of competitiveness including growth, productivity and employment. On all of these US and EU measures, bar its position in world trade (and investment), Europe fares poorly compared with the United States and Japan. The result is a European GDP per capita nearly one-third below that of the US and one-sixth below that of Japan. This is sufficient cause for concern to warrant attempts by policy-makers to develop an optimal model for European industrial competitiveness.

The first Competitiveness Advisory Group appointed by the European Commission argued that competitiveness implies elements of productivity, efficiency and profitability and is a powerful means of achieving rising standards of living and increasing social welfare. Scott and Lodge argue that since World War II, the shift of industrial activity towards science-based enterprises such as electronics or chemicals means that national competitiveness is increasingly dependent on technology, capital investment and labour skills. Unlike previous determinants of national competitive advantage, these factors are not naturally dependent on any particular region or nation state. The resources are internationally mobile and can be attracted and shaped by any state which has a suitable enterprise culture, liberal trade and investment laws, a strong scientific and technical infrastructure, and a good educational system.

These ideas lend credence to another approach – one that defines national competitiveness more in terms of structural resources and conditions than the measurable output and affect. Two Swiss-based institutions, the World Economic Forum (WEF) and the International Institute for Management Development (IMD), are the leading proponents of this approach. Former collaborators, they now publish rival annual indices of competitiveness, based on a different set of criteria from those of US or EU competitiveness advisory expert groupings. The WEF argues that nations compete mainly in the sense that they choose alternative national economic institutions and strategies to promote more rapid growth and increases in living standards. The WEF's competitiveness criteria are compiled from a 59-country study and based on both hard statistics and subjective data which mostly comprise surveys of business people. The statistical data includes indicators of a country's economic performance, technological capacity and infrastructure, taken from a wide variety of published sources. The survey data is derived from an Executive Opinion survey conducted annually. The survey measures perceptions of leading business executives about the country in which they operate. In 1998, for instance, responses were received from over 3000 executives in 53 countries. These surveys serve to complement the quantitative data in allowing the WEF to 'measure' (or at least factor in) perceptions and facts that are not otherwise adequately taken into account. An example cited in the WEF's 1998 global competitiveness report centred on questions regarding the openness of an economy to the rest of the world. In the quantitative data, the WEF has measures of tariff levels and the degree to which the financial markets of a country are open to foreigners. However, it is widely accepted that many countries have hidden or informal barriers that can be as important as the published trade and investment rules. Therefore, the WEF asks business people for their perceptions about the hidden barriers and the openness of financial markets.

The WEF argues that competitive countries are those that have the highest capacity for medium-term economic growth, taking into account their starting level of income. The WEF's competitive index is built upon a set of measures (Table 1), the most important ones being the openness of an economy to trade and investment; the role of government (e.g. public spending as a percentage of GDP); the efficiency of the financial sector; and the nature of the labour market (its flexibility as well as levels of education and skills). Quality of management, infrastructure and technology, and the effectiveness of legal and political institutions comprise the other factors.

These eight factors are seen as a convenient way to group the various indicators employed. After the data is organised into these eight factors it is modified (e.g. measured relative to population or income) in order to remove potential biases from country size. It is subsequently standardised to ensure the rankings are not influenced by units of measure; for instance, US dollars rather than Japanese yen.

Using the example of the openness factor, the index is built as follows:

1. Openness Index = 3/4 Quantitative Data + 1/4 Survey Data Index
1a. Quantitative Data Index = average of three variables (tariffs, capital account restrictions and exchange rate competitiveness)
1b. Survey Data Index = average of four sub-indices (import restrictions, export policy, exchange rate level and stability and openness to foreign joint ventures and direct investment)

Relative weighting between the quantitative index and the qualitative/survey index differs according to which factor is being measured. Overall, greater importance appears to be attached to the qualitative index. Some factors such as management and institutions are in fact weighted entirely through qualitative data.

Table 2 shows that EU countries fare well on infrastructure, technology and management but generally lag behind the US and Japan, due mainly to high taxes and inflexible labour markets.

Nevertheless, viewed in these terms, individual EU member states such as Luxembourg, the UK, the Netherlands, Ireland and Finland perform extremely well relative to the rest of the world. These countries were ranked seventh, eight, ninth, tenth and eleventh respectively on the WEF's 1999 league table of competitive countries. As Table 2 illustrates, this signifies consistently improved rankings for both Ireland and Finland since 1996 and for Luxembourg since 1997. Although the UK and the Netherlands have fallen slightly since the 1998 ranking, they both remain amongst the world's ten most competitive countries. Those EU countries that score best on the WEF's annual global competitiveness rankings tend to be the most open to FDI, possess the most flexible labour markets, and have the lowest rates of corporate tax. Denmark, Sweden and Austria also make the 1999 global top twenty, signifying an improved status for Sweden and relative consistency for both Denmark and Austria. In contrast, France, Germany, Belgium, Portugal, Spain and Italy all consistently fall outside of the WEF's top twenty, and Greece fails to even make the top forty of the world's most competitive countries (WEF Global Competitiveness Reports, 1995-1998).

The Institute for Management Development (IMD) approach is published annually in the form of a World Competitiveness Yearbook (WCY). As with the WEF index, the IMD yearbook's aim is to assess and rank how a nation's environment or economic structure sustains the creation of value-added and promotes growth. The list of primary competitiveness indicators drawn up by IMD is virtually identical to the WEF list: domestic economy, internationalisation, government, finance, infrastructure, management, science and technology and people. However, as Table 2 vividly illustrates, the resultant rankings are significantly different. For the WCY, IMD analyses and ranks

TABLE 1: WEF factors of competitiveness

Factor	Sample variables
Openness	Ease of exporting, exchange rate policy, accessibility of foreign direct investment
Government	Fiscal deficits, rates of public saving, marginal tax rates
Finance	Level of competition in financial markets, credit ratings given by outside observers
Infrastructure	Overall infrastructure investment and quality, telecom infrastructure
Technology	Computer usage, level and quality of research and development
Management	Marketing, staff training, quality of internal financial control systems
Labour	Relative labour costs, level of basic education and skills, labour taxes
Institutions	Quality of legal institutions and practices, extent of corruption

TABLE 2: A comparison of WEF and IMD national competitiveness rankings

Country (WEF)	WEF 1999	WEF 1998	WEF 1997	WEF 1996	IMD 1996	IMD 1997	IMD 1998	IMD 1999	Country (IMD)
Singapore	1	1	1	1	1	1	1	1	US
US	2	3	3	4	2	2	2	2	Singapore
Hong Kong	3	2	2	2	15	4	5	3	Finland
Taiwan	4	6	8	9	8	12	9	4	Luxembourg
Canada	5	5	4	8	7	6	4	5	Netherlands
Switzerland	6	8	6	6	9	7	7	6	Switzerland
Luxembourg	7	10	11	5	3	3	3	7	Hong Kong
UK	8	4	7	15	5	8	8	8	Denmark
Netherlands	9	7	12	17	10	14	14	9	Germany
Ireland	10	11	16	26	12	10	10	10	Canada
Finland	11	15	19	16	22	15	11	11	Ireland
Australia	12	14	17	12	21	18	15	12	Australia
New Zealand	13	13	5	3	6	5	6	13	Norway
Japan	14	12	14	13	14	16	17	14	Sweden
Norway	15	9	10	7	19	11	12	15	UK
Malaysia	16	17	9	10	4	9	18	16	Japan
Denmark	17	16	20	11	25	21	19	17	Iceland
Iceland	18	30	38	27	18	23	16	18	Taiwan
Sweden	19	23	22	21	16	20	22	19	Austria
Austria	20	20	27	19	11	13	13	20	New Zealand
Chile	21	18	13	18	20	19	21	21	France
Korea	22	19	21	20	17	22	23	22	Belgium
France	23	22	23	23	29	25	27	23	Spain
Belgium	24	27	31	25	24	26	25	24	Israel
Germany	25	24	25	22	13	24	26	25	Chile
Spain	26	25	26	32	39	36	28	26	Hungary
Portugal	27	26	30	34	23	17	20	27	Malaysia
Israel	28	29	24	24	36	32	29	28	Portugal
Mauritius	29	N/A	N/A	N/A	26	27	24	29	China
Thailand	30	21	18	14	28	34	30	30	Italy
Mexico	31	32	33	33	40	37	36	31	Greece
China	32	28	29	36	31	31	32	32	Philippines
Philippines	33	33	34	31	32	28	31	33	Argentina
Costa Rica	34	34	43	28	30	29	39	34	Thailand
Italy	35	41	39	41	37	33	37	35	Brazil
Peru	36	37	40	38	42	40	34	36	Mexico
Indonesia	37	31	15	30	35	38	33	37	Turkey
Hungary	38	43	46	46	27	30	35	38	Korea
Czech Rep.	39	35	32	35	38	41	41	39	India
Jordan	40	34	43	28	–	–	–	40	Slovenia

This chart lists only the 40 most competitive countries in each index. The WEF ranks a total of 59 countries and IMD ranks 47.

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47 countries – the 28 OECD members and 19 newly industrialising countries and emerging economies. Competitiveness is ranked using 288 criteria, categorised under the eight primary indicators (or input factors) listed above. Two types of data are used to account for both quantitative and qualitative information. First, hard data comprising statistical indicators obtained from international and regional organisations, private institutions and national institutes. This data includes GDP per capita, growth levels, export and import statistics, inward and outward foreign direct investment figures and trends in market share. Second, soft data compiled from the Executive Opinion Survey, a 106-item questionnaire sent to executives in each country analysed. More than 4000 executives are surveyed annually, from a cross-section of their country's business community. As with the WEF survey, these business people are asked to evaluate the present and future competitiveness of the country in which they operate. The weight of the survey data is one third of the overall weight. Each criterion is subsequently assessed individually and a performance score is created by normalising every country's value using the standard deviation method. The scores are then ranked and the country with the highest standardised value is presented first; conversely, the one with the lowest is ranked last.

The biggest difference in emphasis between the two rival indices is that IMD relies heavily on hard statistics (criteria drawn from national and international organisations) that measure competitiveness through gross domestic product per capita and so forth. In contrast, the WEF relies heavily on softer measures such as surveys. Moreover, IMD believes that size matters. It has kept a certain number of criteria that emphasise the competitiveness that stems from a large domestic market, significant skill resources and so forth. In contrast, the WEF calibrates all criteria on a per capita basis. This partly explains why in the IMD ranking, the US is number one, whilst in the WEF ranking Singapore comes first.

Furthermore, IMD includes GDP and its components such as trade balance in its list of criteria. IMD believes that GDP growth is both a component and a result of competitiveness. The WEF excludes GDP and all its components from its list of competitiveness criteria, believing that these factors are the consequences and not the causes of a country's competitiveness.

An interesting contrast with the WEF approach is IMD's distinction between 'attractive' and 'aggressive' countries (Table 3).

This dichotomy assumes that national competitiveness can be interpreted in two distinct ways: the relative success of a country can be explained by either its attractiveness to foreign investors or by its aggressiveness on international markets. Some countries, like the US, score high on both counts.

The Netherlands study

There is evidence to suggest that the criteria listed in both the WEF and the IMD indices are considered important by governments when assessing their relative competitiveness. The benchmarking studies carried out by governments during the 1990s were largely premised on such factors. For instance, the Dutch Government tested their country's relative competitiveness by looking at eight general variables. These included monetary and fiscal stability, infrastructure development, education standards, technology levels, labour market flexibility, capital market vibrancy, and tax rates (Ministry of Economic Affairs, 1994). The key objective was to ascertain the position, in a limited number of other countries, of performance, policy and institutions in a number of crucial areas

TABLE 3: IMD – contrasting attractive and aggressive economies

Attractiveness variables	Aggressiveness variables
Cultural openness	Export-led economy
Low labour costs	Major outward FDI
Educated workforce	Internationalisation of management
Low corporate tax rates	

for competitiveness. International comparison was thus the primary factor and the aim was to identify where Dutch economic potential could be strengthened and better utilised. The Dutch accepted that precise measures could never be obtained for most of these variables. However, the approximate findings generated served to provide the Government with an indication of the Netherlands' competitiveness relative to other nations. This outcome was deemed satisfactory. In their 1994 and 1997 benchmarking reports, the Dutch Ministry of Economic Affairs explicitly sought to establish the relative global competitiveness of the Netherlands. Some of the country's strong points highlighted in the benchmarking studies included high savings and high public sector R&D spending. However, in general they found that their country is still rich in unexplored potential. Macroeconomic pointers to this were poor performance on prosperity (per capita production) and the low utilisation of the labour potential from an international point of view. Other weak points highlighted included a limited availability of risk-bearing capital and a poor match between supply of knowledge and the demand from business. Moreover, due to the Netherlands' generous social welfare benefits and relatively equitable wage scales, the country scores less well in the variable of incentives for employees. In response to these negative findings, the Government introduced a wide array of counteractive legislative measures. Some notable successes have emerged. For example, progress has been made in recent years in improving the way markets work in the Netherlands through amendments to legislation on shop opening hours, business-licensing regulations and a new Competition Act. The Dutch Government resolved that further systematic screening of the way markets operate and improvements to regulatory systems are crucial to strengthening competitiveness. Perhaps in part as a result of these studies, by the end of the 1990s the Netherlands was experiencing strong levels of economic growth and job creation.

Although we may criticise the value judgements implicit in some WEF and IMD measurements and the unquantifiable nature of many, this conceptualisation serves to cast doubt on the argument that Europe as a whole has a competitive problem. Positive national economic role models exist in Europe and a wide range of European companies are globally competitive. The ongoing debate on Europe's lagging competitiveness may thus be construed in part as a means of making sense of ongoing problems including high unemployment levels in many European countries and in part as a political construct designed to legitimise the introduction of unpopular policy reforms in many EU member states.

The new policy agenda: improving prosperity by promoting competitiveness

The 1990s witnessed the introduction of unpopular policies across the European Union. Many leaders argued that they were necessary if their nations were to be globally competitive. Sheltered markets with generous social welfare benefits were increasingly untenable as Europe liberalised, economies globalised and competition intensified. In addition to increasing global competition, the monetary union convergence criteria placed even greater pressure on European governments to reduce public expenditure and tackle national debt. Governments such as Alain Juppé's in France and Romano Prodi's in Italy sought to restructure their economies and reduce public deficits. The resultant civil unrest and union-led strikes testified to the public's resistance to change. Both Juppé's and Prodi's governments were subsequently defeated in national elections. However, even their leftwing successors, the socialist Jospin in France and the ex-communist D'Alema in Italy, recognised the need for social and economic restructuring and greater fiscal rectitude. Economic change proceeded, often cloaked in the rhetoric of declining national competitiveness. This has consequently led to the development of highly publicised competitiveness policies to promote exports and assist SMEs, and increased competition for inward investment between EU member states. Many states orchestrated a complete *volte-face* on previous policies and positions, sometimes abandoning ideology and associated political baggage in a desperate effort to reduce employment and raise per capita GDP. In conceptual terms, these changes signified a move from interventionist, government-managed industrial policy towards a more discreet, government-as-partner competitiveness policy approach. This shift may best be conceptualised through first, outlining the model of industrial competitiveness policy which has emerged in the

EU and second, examining this industrial competitiveness policy in action at the national level.

The evolution of EU industrial competitiveness policy

The model for European-level industrial competitiveness policy emerged from a number of Commission documents in the early 1990s, most notably the 1993 White Paper, *Growth, Competitiveness and Employment*, and the 1994 Communication, *An Industrial Competitiveness Policy for the European Union*. In general, these documents affirmed the EU's commitment to pursue a more liberal policy agenda, with an emphasis on deregulation and structural reform. At an EU level, research and development (R&D) initiatives, liberal competition rules, infrastructure development programmes, and education and training schemes all endeavour (if not always successfully) to encourage or facilitate corporate competitiveness.

Structural adjustment and the new industrial policy[1]

The legal basis for the new EU industrial competitiveness policy resides in Title XIII (Article 130 EC) of the 1993 Treaty on European Union. Although not referred to explicitly, Article 130 EC reflects the understanding of industrial policy as the promotion of structural adjustment, elaborated for the Community in the Commission's 1990 industrial policy guidelines. Indeed, its first mandate is 'speeding up the adjustment of industry to structural changes'. Consistent with these guidelines, which ranked competition as a precondition for structural adjustment, the Industry Title clearly establishes precedence for the EU's competition norms. Under Article 130 EC, the Community and its member states are to ensure the conditions necessary for industrial competitiveness. They may take action to promote the following four objectives listed in Article 130(1) EC, albeit only in accordance with 'open and competitive markets' (Table 4).

TABLE 4: EU industrial policy objectives: Art. 130 EC
1. Structural adjustment: speed up industry's adjustment to structural changes
2. Enterprise: the development of undertakings, especially small and medium-sized businesses
3. Cooperation between undertakings
4. Exploitation of innovation and research and development results

Hence, the legal framework of Community industrial policy focuses on establishing the preconditions for competitiveness, extending the logic by which completion of the internal market enhances competitiveness.

The EU professes to be developing a favourable set of conditions within which business can compete. It is then for firms to establish their own competitive advantage. Building on the four objectives set out in Table 4, the EU takes two types of action in order to create a favourable competitive environment for European industry. The first relates to the operations of markets. This places emphasis on both competition and trade policy as competitive promoting instruments. The second relates to factors that affect industry's capacity to change. The main devices are the promotion of technology and of training, as well as the development of common, high quality standards throughout the EU. Emphasis has shifted since the early 1990s away from a narrow focus on specific industrial sectors and even particular firms. This is most notable in R&D policies, particularly the EU Framework programmes. During the 1980s, resources were primarily directed towards the electronics and telecommunications sectors. More specifically, a select group of the 12 largest information and communication technologies companies received most of the EU's money. Following a policy review in the early 1990s, these resources have been spread across a wider range of industrial sectors and are not directed towards any particular company or group of companies.

New, competitiveness-oriented approaches to industrial policy have also emerged at a national level in Europe, sometimes predating EU initiatives. The clearest example of this is the UK, where Thatcherite ideology forced a sea change in government's approach to industry and the market.

Competitiveness policy in the United Kingdom

The development of industrial competitiveness policy in the UK is worthy of closer inspection, given the UK's position as the foremost European proponent of economic liberalisation and global competitiveness. Lawton (1999) illustrates how the evolving nature of EU industrial competitiveness policies would also suggest that the British or Anglo-American approach is increasingly accepted across Europe as the most effective way of encouraging competition, stimulating enterprise and innovation and reducing unemployment.

Former British President of the Board of Trade, Michael Heseltine, argued that the role of government is to create the conditions which enable firms to improve competitiveness. He outlined nine ways in which government can contribute to corporate, and consequently national, competitiveness (Table 5).

The creation of a stable macroeconomic environment is intended to allow business to plan ahead with confidence. A consistent and prudent monetary policy is therefore essential, with low inflation levels and sensible, steady interest rates. The other instruments of British competitiveness policy under the Conservative Government combined to place an emphasis on market liberalisation, minimal tax burdens and social costs and government as competitive facilitator.

The general objectives seemed to change only slightly with the arrival of a Labour Government in 1997. Many of the policy objectives listed in Table 5 were reiterated in the Government's 1998 White Paper on Competitiveness. As Prime Minister Blair stated in the White Paper:

> The Government must promote competition, stimulating enterprise, flexibility and innovation by opening markets. But we must also invest in British capabilities when companies cannot alone: in education, in science and in the creation of a culture of enterprise.

The emphasis in fact changed. A more active role is envisaged for government in the promotion of competitiveness. This is best encapsulated in what the 1998 Competitiveness White Paper describes as the three forces for growth and innovation in the British economy (Table 6).

In a telling sentence in Blair's foreword to the Competitiveness White Paper, he concedes that old-fashioned state intervention did not and cannot work *but neither does naive reliance on markets*. This indicates a more proactive approach to competitiveness enhancement by the Blair Government than by its predecessors. It is also indicative of Blair's preference for a 'partnership' between business and government to advance corporate success and national prosperity. This is distinct from the 'government solely as deregulator and macroeconomic stabiliser' approach adopted by previous Conservative administrations. Confirming some of the objectives outlined in Table 6, sources in the UK's Department of Trade and Industry reveal that the British Government place particular emphasis on increasing public spending on science and research, improving links between universities and business, and amending commercial law in a way that is beneficial to business. An example of the latter initiative is a review of insolvency law in an attempt to simplify corporate bankruptcy procedures and reduce the social stigma attached to business failure. Such an initiative would be an important step towards developing the kind of buoyant and rebounding entrepreneurial spirit which exists in the United States.

The New Labour approach does, however, retain elements of old style government interference in industrial activity. Witness for instance

TABLE 5: The Heseltine model for the promotion of competitiveness
Stable macroeconomic environment/monetary policy
Active competition policy and deregulation
Tax policy which promotes investment and enterprise
Education and training schemes
Promote flexible labour market
Dissemination of management 'best practices'
Government-business partnership to promote innovation
Encouragement of capital for SMEs
Commercial framework (e.g. quality standards, intellectual property law)
Source: *European Business Journal* 1994; 6(3): 8–15.

TABLE 6: The three forces for national growth and innovation in the UK	
Forces for competitiveness	Related government initiatives
Capabilities	Financial investment in science and engineering base; promote commercialisation of university research; assist diffusion of information and communication technologies to SMEs; create new Enterprise Fund to support financing of start-ups; easing commercial regulation.
Collaboration	Support the Confederation of British Industry's campaign to encourage companies to adopt best practices; promote clustering in biotechnology and other industries; refocus regional aid to create higher value added jobs.
Competition	Strengthen Office of Fair Trading; consider reform of merger policy; increase pressure for Europe-wide economic reform; press for increased international trade liberalisation.
Source: UK Competitiveness White Paper 1998.	

the Blair Government's £120 million aid package to BMW/Rover in order to keep the Longbridge car factory open and safeguard jobs. Despite the rhetoric of competitive promotion and open markets, such action smacks of old-fashioned interventionism.

Nonetheless, the overall approach of the existing British Government is one which appears more acceptable than its predecessors to other, predominantly social democratic, European governments. Weighed down with high unemployment levels and low growth rates, most European governments (particularly France, Germany and Italy) accept the need to liberalise their markets and engage more vigorously in the global economy. This need for policy change is compounded by both the Single Market Programme's deregulation process and the international trade liberalisation agenda of the World Trade Organisation. However, these administrations strive to maintain their fundamental social welfare commitments and remain ideologically committed to a leading role for government in the economy. Blair's so-called 'Third Way' appears to offer them the chance to adjust to economic realities whilst at the same time preserving their core values and ideals. This is despite the fact that few know what the 'Third Way' really means in practice, except that it is for business and against social injustice and lack of compassion. Perhaps it is ultimately a conveniently vague concept which enables British (and German) social democrat governments to placate the private sector and international opinion whilst reintroducing or reinventing government activism in the market. The impact on European competitiveness remains to be seen.

Conclusions

National competitiveness is not an amorphous concept and it is possible to apply some element of computation to inter-state economic rivalry. However, competition between countries is legitimised more through the words and deeds of policymakers than by tangible economic measures. It follows from this that all measures are relative rather than absolute. With this in mind and despite the public rhetoric and official policy position of the EU, roughly half of the EU's member states may be described as globally competitive. These states rank highly in competitiveness league tables, due largely to their legislative adherence to economic liberalism, investment in human and physical resources and flexible and transparent socio-legal systems.

Since the early 1980s, successive British governments have actively promoted policies, principles and norms that promote global competitiveness. This emphasis changed with the arrival of the Blair administration, primarily to legitimise the role of government in stimulating economic growth and societal prosperity. Cynics may interpret this as traditional government interventionism dressed in new clothes. Nonetheless, the focus on enterprise promotion and global markets remained constant. It is this approach which provides a credible alternative to old left–right policy divisions in Europe. Dual emphasis on the free market and the engaged state provides a role model for at least some other left-of-centre European governments striving to find a compromise between political beliefs and economic necessity.

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Endnote

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